

## **COUNCIL ON REVENUES**

Office on Aging Conference Room  
No. 1 Capitol District Building  
250 S. Hotel Street  
Fourth Floor, Room 410  
Honolulu, HI 96813

Tuesday, March 29, 2011  
1:30 P.M.

### **PRESENT:**

#### Council Members:

Paul Brewbaker (Chair), Jack Suyderhoud (Vice Chair), Avery Aoki, Carl Bonham,  
Pearl Iboshi, Richard F. Kahle, Jr. and Albert Yamada

#### Staff Members:

Department of Taxation: Donald Rousslang, Titin Sakata, Hamid Jahanmir and  
Jacquelyn Guitguiten  
Department of Budget and Finance: Karen Matsunaga, Terri Ohta and  
Sheila Kanemaru

#### Others:

Roderick Becker, Senate Ways and Means  
Anthony Valdez, Senate Ways and Means  
Charles H. Carole, League of Women Votes - Honolulu  
Paul Young, Healthcare Association of Hawaii  
Arik Look, SMO-Hawaii State Legislature  
James Delavon, HMIR  
Neal Miyahira, Budget & Finance  
Lowell Kalapa, Tax Foundation of Hawaii  
Sharon Kotaka, Budget and Finance  
Maurice Morita, LECET  
Nandana Kalupahana, House Finance  
Dan Kalili, Representative Joey Manahan's Office

### **CALL TO ORDER:**

The Chair called the meeting to order at 1:42 P.M. with a quorum present.

### **COMMUNICATIONS TO THE COUNCIL:**

1. A letter to the Council from Governor Neil Abercrombie dated March 17, 2011, requesting the Council on Revenues to reconvene before the end of the month 'in order to take into

account recent events that will have a profound impact on the state's economy', which is the reason for this Special Meeting today.

2. Dr. Tu Duc Pham submitted a request to the Council to review his version of the updated forecast--a concern he raised at the last meeting on March 10, 2011. The Chair commented that he believed the issue was resolved at the last meeting.

After the December 29, 2010 meeting in January, Dr. Pham expressed his concern that the Council didn't take into account the effect of the refunds that were held up in FY2010, even though the Council discussed the issue at length at the last meeting.

The Chair added that in his own model, he took out \$187.4 million from the total for last year and added it to the total for this year. He then ran his model as if the refunds had not been held up.

3. Department of Business, Economic Development & Tourism (DBEDT)/Research, Economics Analysis Division (READ) responded to a previous request made by the Chair for information on federal earmarks with information on projects in and outside of Hawaii. However, no representative from READ was present at the meeting to explain the data; therefore, the Council was unable to effectively evaluate the information.

Next, the Chair asked if there was any other communication to the Council. There was none.

#### **PRESENTATION BY THE DEPARTMENT OF BUDGET & FINANCE (B&F):**

Mr. Neal Miyahira introduced himself and, speaking on behalf of the Department of Budget and Finance (B&F) provided the Council with an update and brief Power Point presentation.

Mr. Miyahira said that after the Council's meeting on March 10<sup>th</sup>, B&F reviewed the Council's growth forecasts and was concerned that they might be too high. Referring to a slide showing historical data on monthly General Fund tax collections from March to June for the last 10 fiscal years, he said that within the last five years, we had one month in which collections were over \$500 million and another month in which collections were closer to \$200 million. The trend was generally increasing since fiscal year 2001, but in recent years the trend has not held up. Within the past 10 years, the highest average for the last 4 months of the fiscal year was just under \$400 million in fiscal year 2007. Last year (FY2010), the average was just under \$385 million, but that includes the effect of refunds being held up. He pointed out that to meet the Council's growth forecast made at its meeting on March 10, 2011 (+0.5%), collections would have to average \$412.2 million per month for March through June.

The Chair agreed with Dr. Bonham that if the effect of the refund delays is removed from 2010, then the data on collections show continued contraction of the economy from 2009 to 2010.

Dr. Bonham asked what the average monthly collections for March through June would look like this year, opining that it won't be greater than \$380 million, but probably not as low as \$330 million either. Mr. Miyahira said that if we hit \$400 million per month it would be the highest this fiscal year and the overall growth for the year would be about -0.6%. He said that if collections for the remainder of the fiscal year match those for the same period last fiscal year (including the refund delays), overall growth for the year would be about -0.2%. He expressed his appreciation for the Council's efforts.

The Chair acknowledged the appreciation and pointed out that having a margin of error of 1% or 2% would be considered a 'good call' and that legislators or the Administration should not plan on spending up to the limit implied by the Council's forecast, but should instead plan on spending something like 98% of that limit. He pointed out that the Constitution does not preclude the administration or the legislature from budgeting to 98% of the Council's forecast and that they have done so before.

Dr. Bonham pointed out that if you look at the historical record on collections in the last four months of the year, you don't get the kind of numbers the Council's forecast implies for the next fiscal year. He also said that one of the things the Council talked about in the last meeting is that the economy is not recovering as strongly as they thought it was. The data revisions the Council received right after the last meeting took a whole one-half percentage point out of the job growth, implying that there was no recovery during the middle of the year. There was no growth in jobs in any sector until the second half of the year.

The Chair pointed out that while the extra half million domestic visitor's to the state last year may not have created any new jobs, they did create new revenues and retail sales.

Dr. Bonham said that the Council has wondered before why the increase in visitors wasn't showing up in tax collections. He also said that when he revised his forecast using the preliminary numbers for January and February, it pulled his employment forecast down by over 1%, from 0% to -1.50%. This implied real weakness in the economy at the end of the 4<sup>th</sup> quarter of the last calendar year and the beginning of the 1<sup>st</sup> quarter in this calendar year, where continued growth had been expected based on growth in the preliminary data and in the tourism sector.

The Chair said he thought the jobs count would continue on its current path. In response to Dr. Bonham's statement about lower revisions, the Chair said that it's a half percentage point of growth instead of 1 percentage point of growth. Dr. Bonham's percentage point was -0.8 for the whole year--downward revisions from -0.3 to -0.8 for the whole year (not from trough to peak).

The Council members discussed visitor's arrivals, jobs data and non-agricultural payrolls briefly. The Chair said that the Council appreciated B&F's help on the general fund forecast, but asked if they had any insights to offer on other funds since the last meeting of March 10<sup>th</sup>. Mr. Miyahira said they had none.

Next, the Council discussed the letter from the Governor and the concerns it mentioned on recent events having a profound impact on the state's economy. They discussed the possible reasons visitors from Japan may decline; the effects of last year's refund delay; the recent increase in the cost of oil and disruptions in the oil supply from North Africa; the loss of federal funding earmarks; the Council's forecast assumptions; and, the data on employment and construction.

The Council also discussed the broader impact of the loss of earmarks. Dr. Bonham said if a new program was shutdown, the effect may not have been included in the Council's forecast in the first place.

The Chair said he asked DBEDT/READ if they could quantify the effects of the loss in earmarks and that he received a spreadsheet from them in response. He also asked for a representative to attend the Council's meeting to explain the spreadsheet, but received a negative response. Without clarification, the Council was unable to use the information in its deliberations.

Dr. Bonham pointed out that data the Council received on the earmarks (i.e., that they amounted to \$300 million to \$400 million) indicated their effect would be smaller than the potential effects of oil price increases or the earthquake in Japan.

The Chair suggested that the Council needed more detail on the magnitudes and the timing of the effects of the concerns listed in the Governor's letter.

#### **GENERAL FUND REVENUE FORECAST:**

The Council's discussion moved on to focus on the general fund revenues.

The Chair said that the Council does not have any more information on revenue collections than what was provided for its last meeting. He asked if a preliminary figure was available for March tax collections. Ms. Sakata responded that as of a few days ago, the Department of Taxation had issued about \$70 million in refunds so far in March.

The Chair asked the Council members to provide their views on the likely effects of the concerns mentioned in the Governor's letter.

Mr. Aoki said that it was really too early to tell what effect the earthquake in Japan would have on tourism in Hawaii, but that the effect for the FY 2011 year was probably not going to be large in terms of the impact to overall General Fund collections and corresponding revenue growth rates.

The Chair discussed the effects of past events that affected tourism, such as SARS, and a previous earthquake in Japan. The Council members also discussed hotel room rates and visitor's spending.

Dr. Bonham said that he considered a pessimistic case that took account of the possible decline in Japanese arrivals and that it lowered his forecast for the year by about 25 basis points. The Council then discussed their individual forecasts for the general fund revenues for this fiscal year. Dr. Bonham's forecast of -1.50% was primarily caused by changes in his data on new jobs and the revenue numbers for January and February. Other Council members also discussed their own individual forecasts and how they arrived at their assumptions.

The Chair, again, turned the discussion to the effects of the recent earthquake in Japan and what might be expected based on the effects of an earlier earthquake in Japan (in Kobe), how the present case might be different (for example, the inclusion of a nuclear catastrophe in the recent event), and how other disasters have affected tourism. The Chair opined that they might not be able to accurately assess the effect of the disaster in Japan by the Council's May meeting, but that a good assessment might be possible by July or September. The Council also discussed possible effects on tourism of events in other countries, including the effects of changes in exchange rates.

The Council turned to a discussion of the effect of the refund delay. Dr. Rousslang explained how the refund delay is handled in the model provided by Tax Research and Planning – it is included in the below-the-line adjustments and the income tax collections used in the regression are adjusted to remove the effects of the refund delays.

The Chair asked Mr. Yamada if his bank is still making loans. Mr. Yamada answered that they were, but that the event in Japan has introduced substantial uncertainty.

The Council discussed the revenue forecasts provided by Tax Research and Planning based on their individual forecasts for economic indicators.

Mr. Aoki asked someone to confirm that right now the growth in general fund revenue for the year was -3.2% through February. The Council members discussed the necessary growth in revenues for the rest of the fiscal year compared to the same period last year that would be needed to meet the Council's earlier forecast of growth of 0.5%, including the effects of the refund delays, and the required monthly collections for the remainder of the fiscal year. They also compared the required monthly collections with the average of past monthly collections.

Dr. Suyderhoud asked what the year's revenue growth would be if collections were \$350 million for each of the next 4 months. The answer was about negative 6%.

Dr. Bonham said he liked -1.6% as a forecast for the revenue growth for the year.

Dr. Suyderhoud and Mr. Yamada pointed out that average monthly collections of \$375 million for the rest of the fiscal year would leave the annual growth in revenues at -3.6%.

The Council also discussed the low February collections (\$315 million) and asked if it could be due to processing payments within the Department of Taxation. Ms. Sakata said it was possible.

Dr. Suyderhoud pointed out that if processing at the Department of Taxation catches up, the revenue growth could be higher than the current data indicate. The Council commented on the low tax collection figures for January and February given the apparent strength of the economic recovery.

The Chair noted that two weeks ago, the Council's forecast was for revenue growth of 0.5% for the fiscal year and asked how the Council could justify changing the forecast to -1.6%, given that the only real news since then was the earthquake in Japan.

Dr. Bonham pointed out again that tax collections in the first months of 2011 didn't seem to be keeping pace with the economic recovery.

The Chair asked for a motion to forecast the growth in general fund tax revenues at -1.6% for FY 2011.

**Dr. Suyderhoud made a motion to forecast the general fund tax revenues at -1.6% for FY2011. Dr. Bonham seconded the motion. The Chair called for the vote, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Jack Suyderhoud</b>	<b>Yes</b>
<b>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Albert Yamada</b>	<b>Yes</b>

Dr. Iboshi asked about forecasts for FY2012 and the remaining years. Dr. Bonham said he saw no reason to change the forecasts for the other years. The rest of the Council members agreed that there was insufficient reason to change the other forecasts. It was agreed to keep the percentage growth rates for the outer years and, to change the levels of collections to be consistent with those growth rates.

The Chair asked if there was any other discussion. There was no further discussion.

The Chair asked for a motion to keep the general fund tax revenues forecast at 11% for FY 2012; and, 6% for FYs 2013 through 2017.

**Dr. Iboshi made a motion to keep the general fund tax revenues forecast (with the change in the levels of collections corresponding to the change in growth rates) at 11% for FY 2012; and 6% for FYs 2013 through 2017. Mr. Kahle seconded the motion. The Chair called for the vote, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Jack Suyderhoud</b>	<b>Yes</b>
<b>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Albert Yamada</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, May 26, 2011 at 2:00 pm at the March 10<sup>th</sup> meeting; however, the date and time will be confirmed by e-mail. The Council staff has reserved the Office on Aging Conference Room 436 for the meeting.

**ADJOURNMENT:**

The meeting adjourned at 3:26pm.